# A FAIR WAY TO CONTROL FEDERAL RETIREMENT PROGRAMS

Statement by

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before the

U.S. House of Representatives Budget Committee

Task Force on Entitlements Uncontrollables, and Indexing

Wednesday, November 9, 1983

Mr. Chairman, if Congress is serious about holding the line on burgeoning Federal deficits, we must bring entitlement programs under control. Your Task Force can be a most constructive force in that endeavor. I applaud your work, and I thank you for inviting me to explain how my FAIR program -- FAIR stands for Federal Annuity and Investment Reform -- will help to curb the uncontrolled cost in the various Federal retirement-related entitlement and pension programs in -- if you'll pardon the pun -- a FAIR way.

As we all know, entitlements are payments that go to anyone who is eligible for a Federal benefit. Their costs have a way of increasing, whether by cost-of-living adjustments (that is, COLAs) or added numbers of participants. The Federal retirement system consists of a patchwork of inequitable entitlements which have gotten out of hand.

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Payments made to civil service and military retirees in 1982 amounted to $42.6 Billion, and employees contributed only about 14 per cent of the civil service retirement system's revenue. The drain on the Federal treasury will get even worse next January, when new Federal workers and re-hires will be drawn into the Social Security System. Tax dollars will then be matching the Social Security old-age and survivors tax they will pay in addition to the seven per cent of salaries paid into the civil service pension fund.

Reports dealing with Federal pension problems have been issued by several Presidential Commissions, the Congressional Research Service, the Universal Social Security Coverage Study Group, the General Accounting Office, and private research organizations. My FAIR proposal benefits from the recommendations of these reports and my experience with private pension matters by virtue of my private law practice and my 27 years as a legislator, with 17 of those years as a member of the House Committee on Education and Labor.

Three separate bills are involved.

## H.R. 3751 - COLA Equity

The first bill, the COLA equity bill is H.R. 3751. It addresses one of the often heard criticisms that Federal pensions cost so much because they have two features unmatched in the private sector -- retirement at age 55 and full inflation protection. H.R. 3751 would bring about greater equity by limiting post-1983 COLAs to 60 per cent of the COLA increase for those benefits exceeding the level of the maximum retirement benefits payable to a new retiree under Social Security -- which will be about $10,000 in 1984 -- when an employee's benefits under all Federally sponsored retirement and disability systems are combined.

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The fact that retirees under present law can draw combined military and civilian retirement income of $25,000, $35,000, $45,000, $55,000 (even in rare cases over $60,000) and still receive full COLAs equal to 100 per cent of the consumer price index (CPI) is as much an affront to just plain good sense as it is to the already overburdened Federal taxpayer. The uncapped COLA has created an embarrassment of riches to the minority of Federal retirees who have become well-heeled as a result of the present inequity.

It is clear that the current structure is in need of change when retirees can ultimately draw more in retirement than their on-the-job replacements will earn while working. The present COLA formulation leading to this result has also dramatically increased the spread in the dollar amount of pensions which employees retiring at different pay levels initially receive. This built-in "rich get richer" principle can be illustrated (when considering past double-digit rates of inflation) by comparing 1) the $100 per month increase accruing to the typical retiree with 2) the $6,000 per year increase going to the fortunate few drawing $60,000 Federal pensions.

If the provisions of H.R. 3751 had been in effect in the past, the spread between high income and moderate income retirees would have been kept more in check and the retirement income of Federal employees retiring with long-service and above average wages would not have spurted ahead of the earned income of their counter-

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parts in the active workforce. The provisions of the bill are prospective in application, would reduce no retiree's pension, but would serve to moderate future benefit increases for those persons retiring at above average wage levels.

The provisions of H.R. 3751 would also bring the COLAs under the current Federal systems more in line with leading private pension fund practices. This is only fair inasmuch as the average cost-of-living wage increase agreed upon in private sector collective bargaining has averaged about 60 per cent of the increase in the CPI.

Interestingly, many of the private and State and local government retirement systems which have automatic post-retirement COLAs cap the COLA at 3 per cent -- 60 per cent is the percentage benefits would increase under those plans if a long-term inflation rate of 5 per cent were assumed.

The 60 per cent COLA provision would also aid greatly in controlling the rapidly escalating unfunded liabilities among the various Federal pension systems. As a result of legislation which I authored (P.L. 95-595) a more realistic actuarial assessment of all Federal financial reports required of all Federal plans show that their combined unfunded liabilities (exclusive of Social Security) exceeds $1 Trillion, a debt which will have to be paid but which is in addition to the already recorded Trillion-dollar-plus national debt. Over $100 Billion of this pension debt has been created in just the past few years under the Civil Service Retirement System alone.

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Additionally, introducing the 60 per cent COLA escalator factor will help restore the public support that is required if the taxes necessary to fund future benefits are to be supplied in sufficient quantity to meet full expectations and help restore a new measure of financial health to the major Federal civilian and military retirement systems.

H.R. 3752 - the Federal Annuity and Investment Reform Act

The second bill in the FAIR package is H.R. 3752, the Federal Annuity and Investment Reform Act.

In brief, the FAIR program (1) establishes a defined benefit and thrift plan arrangement comparable to that found in the private sector to provide supplementary benefits for those Federal employees newly covered under Social Security, (2) conforms the provisions of the present Civil Service Retirement and Disability System to minimize future differences in contributions and benefits for present employees as compared with those newly covered under Social Security, (3) strengthens the financing of the Civil Service Retirement and Disability System by maintaining the one system for both old and new employees, by requiring full dynamic normal costs to be contributed on behalf of both old and new employees, by requiring full employer contributions to amortize the initial unfunded liablity over 40 years as a level percentage of payroll, and by providing the opportunity for enhanced investment earnings of the system, (4) extends the accrued benefit protection applicable to qualified private plans to the benefits under the Civil Service Retirement System (CSRS), and conforms the provisions of the CSRS and the new Federal Thrift Plan to the standards required under ERISA (The Employee Retirement Income Security Act of 1974), and (5) provides for the

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voluntary election by current Federal workers to be covered under Social Security and the provisions of the CSRS and Federal Thrift Plan applicable to new employees.

As a result of FAIR, an additional, direct benefit will accrue to the financial health of the Social Security Old Age, Survivors, and Disability Trust Funds. Since current employees may make an irrevocable election to come under both Social Security and the provisions of the CSRS and Federal Thrift Plan applicable to new employees, an additional employee and employer contribution of 5.7 per cent of pay for each employee making the election will be made to the Social Security trust funds beginning in 1984.

Enactment of FAIR would also make many Billions of dollars available to repay loans made by the Medicare trust fund to the old-age, survivors, and disability funds and allow additional interfund borrowing if necessary.

H.R. 3753 - COLA Stabilizer

I call the third bill in the FAIR package (H.R. 3753), the COLA stabilizer.

The Congressional Budget Office reports that nearly one-third of total Federal spending is accounted for under indexed entitlement programs. Over the past four years alone, the COLAs under these progams have increased program spending by 50 per cent. Retirement and disability programs account for over 99 per cent of all COLA-related entitlement program spending.

To help assure long-term program solvency and to regain a measure of fiscal control, the COLA stabilizer would limit automatic increases after 1983 to the lesser of the increase in national wages or the increase used in the CPI. The stabilizer would apply to all pension, annuity, retirement, disability and similar programs operated by the Federal government, including, but not limited to, the

Civil Service Retirement System, the Uniformed Service Retirement System, the Railroad Retirement System, and the Social Security System; but programs basing benefits on need would be exempted.

Working Americans in and out of government are willing to accept some adjustments in future COLAs as long as no one group suffers for the gain of another. No one wants to be singled out unfairly. The COLA stabilizer is fair to all.

No longer would people on government pensions get bigger COLAs than working Americans. The stabilizer would end this inequity between working and non-working generations.

Importantly also, the stabilizer would not reduce benefits, but would merely put a reasonable limit on future post-retirement benefit increases.

In today's dollars, even a one per cent difference in COLAs would give us a $2 Billion easing of the strain on all Federal old-age, disability, and retirement programs.

Conclusion

The FAIR package is a sweeping reform of Federal pension programs. It is long-term. It is comprehensive and, therefore, necessarily complex. The provisions, however, have been worked out in great detail. I have asked the Office of Management and Budget, and the Office of Personnel Management, for their anal- ysis of the savings that would result from FAIR.

Thank you again for allowing me to present a few of the details to you today. I am dedicated to passage of my FAIR package before I retire from Congress at the close of this term. Enactment would reduce retirement benefits for which I will be eligible, but more importantly bring fairness and cost controls to Federal pension and disability entitlement programs.

I hope your Task Force will be able to get behind FAIR, and I will be ... now.